

# PEPping up your co-operative's performance - delivering better board value -

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*insights into contemporary good governance trends  
focussing on improving the performance of corporate  
boards*

**Co-operatives WA  
Annual Conference 2014**

**Presenter: Steven Cole**



**cole corporate**

# Etymology

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- Concise Oxford Dictionary  
\***pěp**, n.(sl.).  
vigour, energy, vitality
- “Concise Governance Lexicon”  
**PEP** – performance enhancement processes

# Outline of Presentation

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## PART A

the governance landscape

- evolution
- holistic perspective
- governance as a performance enabler

## PART B

board dynamics

- contemporary research
- the great performance enabler

## PART C

performance enhancement process (“PEP”) trends for boards

- board skills matrix
- board member background checks
- role of nominations committee
- new board member induction
- board member continuing professional development
- board, committee, chair and individual director evaluations and review

## PART D

conclusion and Q&A

# PART A –THE GOVERNANCE LANDSCAPE

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## A1. What is governance?

“The processes, systems and practices by which quality informed decisions are made and actioned in a timely manner to optimise an organisation’s performance in accordance with its stated objectives and to effectively manage its risks”



Strategy



**GOVERNANCE IS SIGNIFICANTLY ABOUT PERFORMANCE  
OUTCOMES, NOT JUST COMPLIANCE**

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## A2. Objectives of effective governance

- Offensive strategy
  - ◆ optimise utilisation of scarce resources
  - ◆ best deliver organisational outcomes
  - ◆ enliven human spirit with worthwhile endeavour
  - ◆ enhance sustained organisational outcomes
- Defensive strategy
  - ◆ counter wasteful endeavour
  - ◆ meet standards and social expectations
  - ◆ manage risk and liability exposure
  - ◆ protect against the downside

**GOVERNANCE HAS BOTH OFFENSIVE AND DEFENSIVE PURPOSES**

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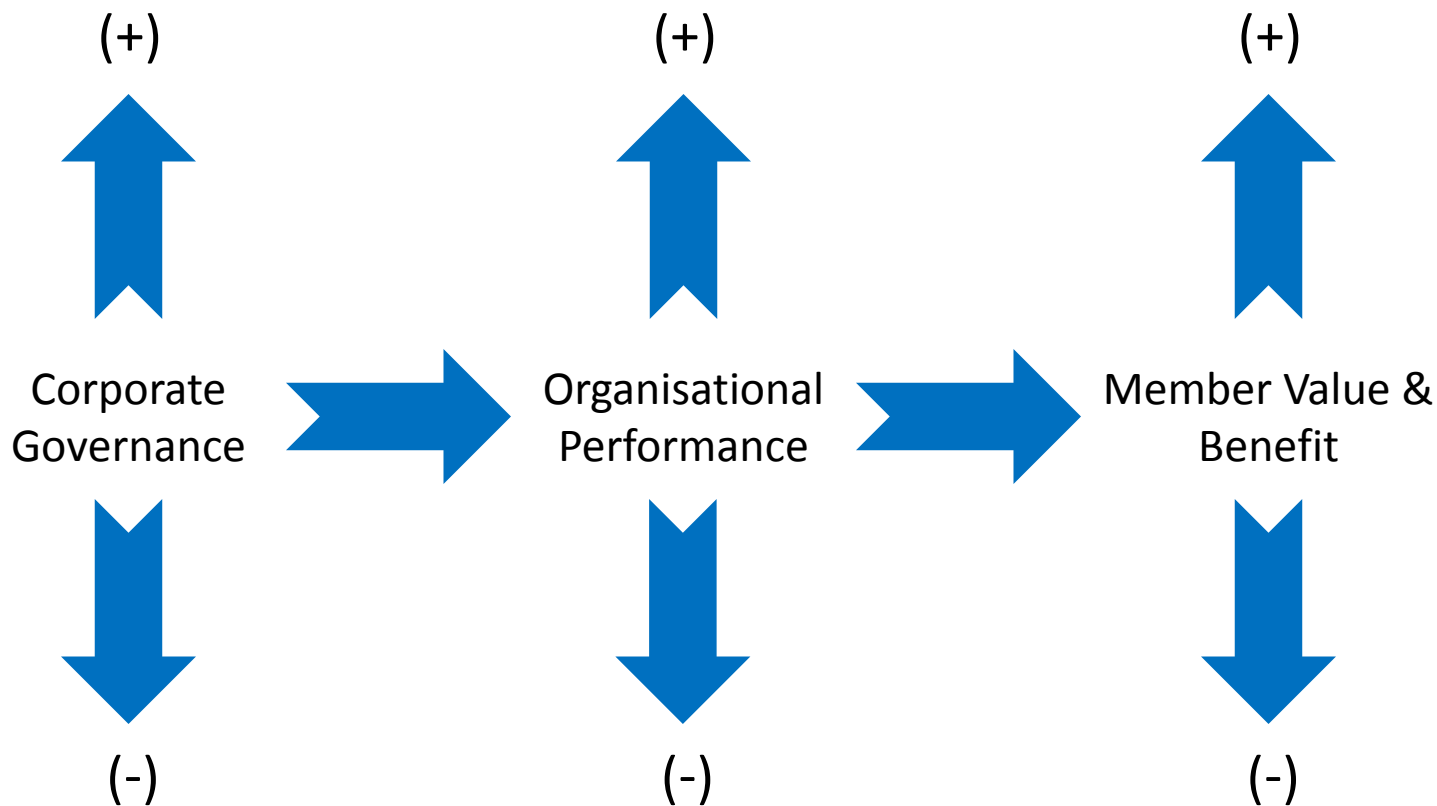
## **A3. Governance framework suitability**

- Co-operative principles
  - voluntary open membership
  - democratic member control
  - member economic participation in organisation's business
  - autonomy and independence
  - education and training for constituents
  - co-operation amongst peers
  - concern for the community
- Fitness for purpose – one size does not fit all

EFFECTIVE GOVERNANCE MUST BE FIT FOR PURPOSE, WITH  
PERFORMANCE BENCHMARKED AGAINST ORGANISATIONAL OBJECTIVES

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## A4. Co-relativity of Outcomes



MEMBER BENEFIT IS A PRIMARY CO-OPERATIVE OBJECTIVE

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## A5. Corporate Governance Framework™



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## **A6. The changing governance landscape for co-operatives and their board members**

- regulatory red and green tape
- managing diverse stakeholder expectations
- balancing delivery of member value with organisational growth
- capital funding needs and financial sustainability
- competition from other business models
- responsibilities and duties of board members

**GOVERNANCE CONTINUES TO EVOLVE FOR CO-OPERATIVES  
ALONG WITH OTHER CORPORATE ENTITIES**

## PART B – BOARD DYNAMICS

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### B1. The vital role of an effective board

- if governance is a performance enabler  
[AND]  
if governance is the domain of the board  
[THEN]  
without the board being truly effective, organisational  
governance and performance risk being compromised
- contemporary spotlight on board performance

**CAN THE BOARD ADD BETTER VALUE TO THE ORGANISATION'S  
OUTCOMES?**



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## B2. “Team” board

- boards operate in a collective team environment
- mere collection of talented/interested individuals with good intent?

[OR]

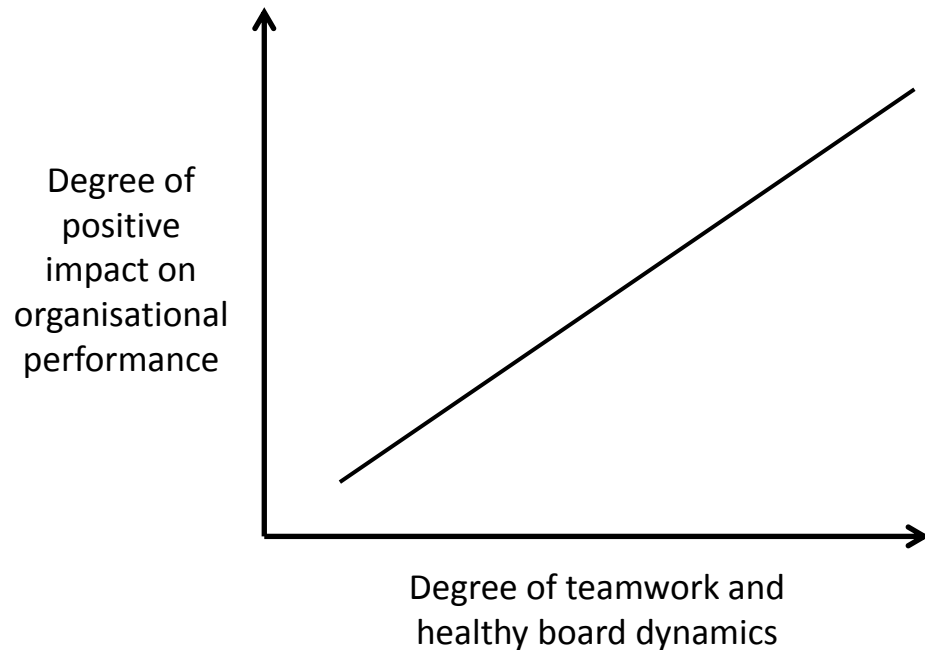
team whose combined dynamic output synergistically exceeds the sum of the contribution of its parts?

**“THE WHOLE IS GREATER THAN THE SUM OF ITS PARTS”**

**- Aristotle**

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## B3. Contemporary Research (Solange Charas 2014: The Impact of Board Dynamics on Shareholder Value Creation)



**SURVEY SAMPLE SHOWED HEALTHY BOARD DYNAMICS HAD AN 8x GREATER IMPACT ON ORGANISATIONAL PERFORMANCE THAN INDIVIDUAL DIRECTOR ATTRIBUTES**

## B3. Factors relevant to healthy team dynamics

<b>How the job gets done</b>	<ul style="list-style-type: none"><li>• Team focused values and attributes</li><li>• Individual participation/involvement</li><li>• Mutual trust</li><li>• Interpersonal relationships</li><li>• Interpersonal communications</li><li>• Cooperation</li><li>• Unified commitment</li><li>• Interdependence</li></ul>
<b>Getting the job done</b>	<ul style="list-style-type: none"><li>• Team norms understood</li><li>• Clear purpose/goals</li><li>• Clear roles and responsibilities</li><li>• Standard of excellence</li><li>• Competent team members</li><li>• Correct skill mix</li><li>• Planning</li><li>• Job/task significance</li><li>• Upper management support</li><li>• Access to key information</li></ul>
<b>Shared leadership</b>	<ul style="list-style-type: none"><li>• Shared leadership/team leadership</li><li>• Members give and receive performance feedback</li><li>• Team decision process</li></ul>
<b>Learning in teams</b>	<ul style="list-style-type: none"><li>• Team self-assessment</li><li>• Conflict resolution</li><li>• Problem identification/resolution</li><li>• Flexibility/change management</li><li>• Creativity/innovation</li><li>• Continuous training/learning</li></ul>
<b>Outcomes</b>	<ul style="list-style-type: none"><li>• Team satisfaction with rewards</li></ul>



# PART C – PERFORMANCE ENHANCEMENT PROCESSES

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## C1. The bus analogy

- Objective
  - getting and keeping the bus on route and on time to its intended destination
- How
  - getting the right people on the bus
  - getting the right people sitting in the right seats on the bus
  - keeping good order on the bus
  - ensuring those on the bus add value to the journey
  - getting those not adding value to alight the bus

**EFFECTIVE GOVERNANCE IS ABOUT ENSURING THE BUS AND ITS PASSENGERS ARE AND REMAIN “FIT FOR PURPOSE” FOR THE INTENDED JOURNEY**



## C2. Emerging relevant governance standards and principles

Benchmark Governance Guidance(*)	Relevant PEP (Performance enhancement process)
Recommendation 2.2	board skills matrix to identify relevant gaps/needs
Recommendation 1.2	undertake pre-appointment director checks and communicate to members to assist in their voting intent
Recommendation 2.6	new board member induction program
	provide opportunity for professional development for existing board members
Recommendation 1.6	periodic (? annual) board, committee and individual director evaluation and review program

(\*) ASX Corporate Governance Council Principles and Recommendations (3<sup>rd</sup> Edition 2014)

**ALTHOUGH ASX GOVERNANCE RECOMMENDATIONS DO NOT APPLY TO CO-OPERATIVES THEY DO REFLECT BROADLY ACCEPTED BENCHMARK STANDARDS**

## C3. Board Skills Matrix

### Scoring Key

- 3 - good skills/experience for this attribute
- 2 - some skill/experience for this attribute
- 1 - minimal skill/experience for this attribute

### Objectives

- (a) Multiple high scores in key areas
- (b) Above average outcomes across the board
- (c) Identify skill/experience "gaps"

Attribute	Board Members					Average
	A	B	C	D	etc	
<b>1. Industry related</b>						
(a) (?)						
(b) (?)						
(c) (?)						
<b>2. Business related</b>						
(a) C-suite experience						
(b) International experience						
(c) etc						
<b>3. Skills related</b>						
(a) Accounting/finance						
(b) Legal/governance						
(c) IT						
(d) Marketing						
(e) etc						
<b>4. Other</b>						
(a) Diversity						
(b) etc						
<b>AVERAGE OF AVERAGES</b>						



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## C4. Induction and Professional Development

- Induction of new board members
  - desk top (governance charter, annual reports, financial papers, recent board packs, policies, board calendar etc)
  - out and about (site visits, one on one discussions)
- Professional Development for existing board members
  - “in-boardroom” programs/presentations (external or internal facilitators)
  - external courses e.g. AICD (governance related, finance for directors, risk, strategy, duties and responsibilities etc)
  - budgetary allocation for PD initiatives

**TAKING TIME TO SHARPEN THE BOARD’S “SAW”**

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## C5. PEP evaluation reviews

- by relevant governance criteria
  - individual board member and chair skill, experience, behavioural and other attributes
  - board and committee structure, membership, dynamics, deliberations, meeting and reporting processes
  - organisational policies/processes, including strategy, risk management and performance outcomes
  - stakeholder reporting/engagement and community reputation/image
- holistic assessment [OR] particular segments focus

**TO BE TRULY EFFECTIVE SOUND GOVERNANCE NEEDS TO PERMEATE  
HOLISTICALLY THROUGHOUT THE ORGANISATION**

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## C6. PEP evaluation reviews (cont)

- by nature of review process
  - internal [or] external facilitation
  - self-reflective survey questionnaire (e.g. AICD GAT)

[OR]

one on one interviews and assessment

[OR]

hybrid combination

- by frequency of review/evaluation (?annual phased approach)
- what are the insights, outcomes and action steps arising?
- more than a “tick the box” exercise

**ENSURING THE PROCESS IS FIT FOR PURPOSE FOR YOUR CO-OPERATIVE'S  
NEEDS AND CIRCUMSTANCES**

# PART D – CONCLUSION & Q&A

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## D1. Conclusion

- Effective governance
  - ◆ focus on the upside performance outcomes but manage downside risks
  - ◆ changing governance landscape and some challenges
- Board dynamics
  - ◆ the great performance enabler
  - ◆ think about the bus, who is in it and are they adding value
- Ensuring the board is and remains fit for purpose
  - ◆ gap analysis of skills/experience
  - ◆ “sharpening the saw” of the board and its members

**EFFECTIVE GOVERNANCE IS TOO IMPORTANT AN ISSUE  
TO BE LEFT TO CHANCE**

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## D2. Conclusion (cont)

- General Q & A and observations
- Experiences to share?
- Where to from today?



**IF YOU DON'T KNOW WHERE YOU ARE GOING THEN ANY ROAD  
WILL GET YOU THERE – Lewis Carroll**